

INTERURBAN TRANSIT AUTHORITY

COUNTY OF ALLEGAN, MICHIGAN

FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

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Independent Auditors' Report

January 19, 2009

Board of Directors
Interurban Transit Authority
Douglas, Michigan

We have audited the accompanying financial statements of Interurban Transit Authority, County of Allegan, Michigan as of and for the year ended September 30, 2008, as listed in the table of contents. These financial statements are the responsibility of Interurban Transit Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Interurban Transit Authority, County of Allegan, Michigan as of September 30, 2008 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2009 on our consideration of Interurban Transit Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Management has elected to omit the Management's Discussion and Analysis from the required supplementary information.

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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Interurban Transit Authority's basic financial statements. The supplementary Schedules 2, 4R, 4E, 4N, 5, and 6 are presented for purposes of additional analysis as required by the Michigan Department of Transportation, and are not a required part of the basic financial statements. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Funding Progress – Employee Retirement System has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Ferris, Busscher & Zwiars, P.C.

FERRIS, BUSSCHER & ZWIERS, P.C.
Certified Public Accountants
Holland, Michigan

**INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008**

Assets

Current assets:

Cash and equivalents	\$ 100,162
Investments	155,000
Due from federal and state governments	72,471
Other receivables	3,645
Interest receivable	282
Prepaid insurance	<u>6,859</u>
Total current assets	338,419

Property and equipment, net	<u>181,898</u>
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Total assets	<u>\$ 520,317</u>
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Liabilities and Net Assets

Current liabilities:

Accounts payable	\$ 12,969
Employees' funds withheld	1,133
Accrued wages, payroll taxes and compensated absences	<u>14,531</u>
Total current liabilities	28,633

Net assets:

Invested in capital assets	181,898
Unrestricted	<u>309,786</u>
Total net assets	<u>491,684</u>

Total liabilities and net assets	<u>\$ 520,317</u>
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**INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2008**

Operating Revenues	
Demand response (farebox)	\$ 59,309
Operating Expenses	
Operations	496,294
Maintenance	85,745
General administration	170,988
Total operating expenses	<u>753,027</u>
Operating loss	(693,718)
Nonoperating Revenues	
Tax levy	239,019
State operating grants	272,172
Federal operating grants	96,428
Gain on disposal of capital assets	1
Interest income	<u>7,072</u>
Total nonoperating revenues	<u>614,692</u>
Change in net assets	(79,026)
Net assets - October 1	<u>570,710</u>
Net assets - September 30	<u><u>\$ 491,684</u></u>

See notes to financial statements

**INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2008**

Cash Flows from Operating Activities

Received from user charges	\$ 63,633
Payments to employees for services	(314,650)
Payments to suppliers for goods and services	(162,679)
Other payments	(146,718)
Net cash used by operating activities	<u>(560,414)</u>

Cash Flows from Noncapital Financing Activities

Nonoperating grants received	<u>618,702</u>
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Cash Flows from Capital and Related Financing Activities

Proceeds from the disposal of capital assets	1
Purchase of capital assets	(1,817)
Net cash used by capital and related financing activities	<u>(1,816)</u>

Cash Flows from Investing Activities

Interest income	6,934
Purchase of investments	(40,000)
Net cash used by investing activities	<u>(33,066)</u>

Net increase in cash	23,406
Cash and equivalents balance - October 1	<u>76,756</u>
Cash and equivalents balance - September 30	<u>\$ 100,162</u>

Reconciliation of Operating Loss to Net Cash Used by Operating Activities

Operating loss	\$ (693,718)
Adjustments to reconcile net operating loss to net cash used by operating activities:	
Depreciation expense	68,518
Change in assets and liabilities:	
Receivables	14,215
Prepays	54,327
Accounts payable and accrued liabilities	(3,756)
Net cash used by operating activities	<u>\$ (560,414)</u>

**INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

1. Summary of Significant Accounting Policies

Interurban Transit Authority is organized as a non-profit corporation. The incorporating municipalities include the City of Saugatuck, City of the Village of Douglas and Saugatuck Township. The Authority has the capability and the authority to provide public transportation to the general public.

Basis of Accounting

The Authority is accounted for in a proprietary fund which accounts for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to proprietary funds of governmental units, and, accordingly, the accrual basis of accounting and economic resource measurement focus are followed. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperation items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance. The government has elected not to follow subsequent private-sector guidance.

The following is a summary of the more significant accounting policies:

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Prepaid Items

Certain payments to vendors reflect costs applicable to future years and are recorded as prepaid items.

Capital Assets and Depreciation

Capital assets include property, plant and equipment with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are stated at cost or fair value at the date of purchase/gift. Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as defined in the R&E Manual and/or as approved by BPT.

**INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

1. Summary of Significant Accounting Policies (Continued)

The eligible depreciation of \$6,494 (\$68,518 total depreciation reported in PTMS code 51300 for Nonurban less ineligible depreciation of \$62,024 reported in the PTMS code 55007 Ineligible Depreciation) includes only the depreciation of assets purchased with local funds and where the useful lives of the assets purchased has been approved by BPT. An additional amount of ineligible depreciation of \$1,441 for federal purposes (on Schedule 5 in the supplementary information section) is for cost overruns on the facility purchased with federal and state funds.

Capital assets are depreciated over the following useful lives:

Land improvements	10
Operating facility	20
Revenue vehicles	5-7
Office equipment	5-10
Yard equipment	5

Compensated Absences (Vacation and Sick Leave)

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available to the employees monthly. Vacation leave must be used within 18 months after it has been earned. Any unused vacation time at the time of termination will be paid to the employee.

Sick leave is earned at a rate of five days per year. It cannot be accumulated from year to year.

Vacation or sick leave utilized during the year is recorded as a current expense. At year end, each employee's accumulated vacation leave is computed by applying their current rate of pay times total accumulated hours. The composite dollar total for all employees is entered as an accrued liability by an applicable adjusting entry posted to the liability and expense account.

Restricted Net Assets

The Authority's policy is to first apply restricted resources when an expense is incurred for which restricted and unrestricted net assets are available.

Advertising Costs

The Authority expenses all advertising costs as incurred. Advertising expense was \$12,275 for the year ended September 30, 2008.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

2. Deposits and Investments

Michigan Compiled Laws, Sections 129.91 authorizes the Authority to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Authority Board has designated three banks for the deposit of Authority funds. The investment policy adopted by the Board is in accordance with Public Act 196 of 1997.

At year-end the Authority's deposits and investments were reported in the basic financial statements in the following categories:

Cash and cash equivalents	\$ 100,162
Investments	<u>155,000</u>
Total	<u>\$ 255,162</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	\$ 255,102
Petty cash and cash on hand	<u>60</u>
Total	<u>\$ 255,162</u>

The bank balance of the Authority's deposits is \$267,576 of which \$267,576 is covered by federal depository insurance and \$0 uninsured and uncollateralized.

**INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

3. Capital Assets

Capital assets consist of the following as of September 30, 2008:

	Purchased With Interurban Funds	Purchased With Capital Grants	Total
Land	\$ 31	\$ 27,500	\$ 27,531
Land improvements	17,732	-	17,732
Operating facility	81,686	330,571	412,257
Revenue vehicles	4,973	418,077	423,050
Office equipment	7,652	34,395	42,047
Yard equipment	8,395	31,699	40,094
Subtotal	120,469	842,242	962,711
Accumulated depreciation	(96,335)	(684,478)	(780,813)
Totals	\$ 24,134	\$ 157,764	\$ 181,898

Capital asset activity for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 27,531	\$ -	\$ -	\$ 27,531
Capital assets being depreciated:				
Land improvements	17,732	-	-	17,732
Operating facility	412,257	-	-	412,257
Revenue vehicles	470,850	1,054	(48,854)	423,050
Office equipment	45,034	763	(3,750)	42,047
Yard equipment	40,094	-	-	40,094
Subtotal	985,967	1,817	(52,604)	935,180
Accumulated depreciation for:				
Land improvements	11,614	1,045	-	12,659
Operating facility	328,990	20,951	-	349,941
Revenue vehicles	349,261	43,118	(48,854)	343,525
Office equipment	34,940	3,404	(3,750)	34,594
Yard equipment	40,094	-	-	40,094
Subtotal	764,899	68,518	(52,604)	780,813
Net capital assets being depreciated	221,068	(66,701)	-	154,367
Total capital assets – net of depreciation	\$ 248,599	\$ (66,701)	\$ -	\$ 181,898

Depreciation expense was \$68,518 for the year ended September 30, 2008.

When federal or state funded assets are withdrawn from a public transportation service, the disposition of the assets are to be determined by the Michigan Department of Transportation.

**INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

4. Defined Benefit Pension Plan

Plan Description

The Authority's defined benefit pension plan, which consists of participation in the Municipal Employees' Retirement System of Michigan, provides retirement, disability and death benefits to plan members and beneficiaries. The Municipal Employees' Retirement System of Michigan ("System") is an agent multiple-employer pension plan administered by the Retirement Board of the Municipal Employees' Retirement System of Michigan. The authority to establish and amend the benefit provisions of the plan rests with the System's Retirement Board; the provisions of the Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220; and the System's plan document. The Authority adopts its specific benefit provision. The System issues a publicly available financial report that includes financial statements and required supplemental information for the Municipal Employees' Retirement System of Michigan. That report may be obtained by writing to the Municipal Employees' Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling 1-800-767-6377.

Funding Policy

The Authority's plan members do not contribute to the System. The Authority is required to contribute at an actuarially determined rate. The required contribution for the period October 1, 2007 through September 30, 2008 was based on the annual actuarial valuation as of December 31, 2007. The net rate used was 4.82% of a projected annual covered payroll. The contribution requirements of plan members are selected by the Authority. The contribution requirements of the Authority are established and may be amended by the System's Retirement Board, yet the Authority selects its specific benefit provision.

Annual Pension Cost

For the year ended September 30, 2008, the Authority's annual pension cost of \$12,683 for participation in the System was equal to the Authority's required and actual contributions. In addition, \$56,254 was an adjustment of the prepaid asset, resulting in a total annual pension cost of \$68,937. The required contribution was determined as part of the December 31, 2007 actuarial valuation using the entry age normal cost method. This funding method has been used since the December 31, 1997 valuation. The assumptions and methods used in the December 31, 2007 actuarial valuation are those adopted by the Retirement Board. The actuarial assumptions were last revised as of December 31, 2000 to reflect the results of the study of plan experience covering the period from December 31, 1993 through December 31, 1998. Prior to then, the attained age normal cost method had been in effect. The actuarial assumptions used in the December 31, 2007 valuation included a long-term net investment yield rate of 8% and projected annual salary increases of 4.5%, plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases ranging from 0% to 8.40%. The actuarial value of the Authority's plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis which remains stable at 30 years.

The following is a schedule of annual pension cost and net pension obligation relating to the Authority's participation in the System:

Fiscal Year Ending	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
09/30/06	\$15,175	100	0
09/30/07	13,924	100	0
09/30/08	68,937	100	0

**INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

5. Cost Allocation Plans

The Authority does not have any Bureau of Passenger Transportation approved cost allocation plans, and none were needed for the year ending September 30, 2008.

6. Explanation of Ineligible Expenses Per the BPT R&E Manual

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual (R&E Manual). Annual audit costs and depreciation are the costs in which eligibility differs from the State R&E Manual and the Federal OMB Circular A-87. The Interurban Transit Authority did not incur any expenses associated with Auxiliary Transportation Revenues (40600) or Nontransportation Revenues (40700), therefore, no expenses are subtracted out as ineligible on Schedule 4E (Nonurban) or on Schedule 5. Any capital money used to pay for operating expenses are either subtracted out as ineligible or not included in total expenses to be reimbursed with State Formula Funds.

7. Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and workman's compensation benefits provided to employees.

The Authority is a member of the Michigan Transit Pool, a public entity risk pool, which provides insurance coverage for State of Michigan transit authorities. As a public entity risk pool, the pool is comprised of a cooperative group of governmental entities that have joined together to finance certain risks. As a participant in this pool, the Authority is insured under a retrospectively rated policy whereby the initial premium is adjusted based on actual experience during the period of coverage. Insurance coverage provided by participation in this pool includes general and automobile liability protection and direct property damage coverage. In addition, liability, property and crime coverage is provided for as a participant in another public entity risk pool, the Michigan Municipal Risk Management Authority. No additional accrual has been made on the books of the Authority as of September 30, 2008 for any potential amounts due as a result of participating in these public entity risk pools.

The Authority purchases commercial insurance for workman's compensation coverage and medical benefits. Settled claims for insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through insurance during the past year.

8. Subsequent Events

The Authority is periodically awarded grants from the Michigan Department of Transportation for the acquisition of revenue vehicles. At September 30, 2008, the Authority had three outstanding grants to purchase vehicles and one outstanding grant to purchase a vehicle washer. The capitalized cost of the vehicle or washer and the related income will be recorded when the vehicle or washer is received by the Authority. A schedule of outstanding grants is shown in Schedule 2 in the supplementary information section of the financial statements.

Supplementary Information

**INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED SEPTEMBER 30, 2008**

Schedule 2

Federal and State Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures		Prior Year's Expenditure	Award Amount Remaining
				Total	Federal		
U.S. Department of Transportation							
Passed through Michigan Department of Transportation							
Operating assistance - Section 5311	20.509	2002-0048	\$ 109,082	\$ 109,082	\$ 109,082	\$ -	\$ -
Federal transit capital grants							
Capital grant - Section 5311 (80/20)	20.509	2002-0048/Z8	77,305	-	-	52,652	24,653
Capital grant - Section 5311 (80/20)	20.509	2002-0048/Z10	55,000	-	-	-	55,000
Capital grant - Section 5311 (80/20)	20.509	2007-0229/Z2	61,000	-	-	-	61,000
Capital grant - Section 5311 (80/20)	20.509	2007-0229/Z4	12,000	-	-	-	12,000
Michigan Department of Transportation							
Operating assistance - Act 51	N/A	N/A	249,785	249,785	-	249,785	-
Nonurban							
Totals			\$ 564,172	\$ 358,867	\$ 109,082	\$ 249,785	\$ 152,653

**INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NONURBAN REGULAR SERVICE REVENUE REPORT
YEAR ENDED SEPTEMBER 30, 2008**

Schedule 4R

Code	Description	Total
401:	Farebox Revenue	
40100	Passenger fares	\$ 59,309
407:	NonTrans Revenue	
40760	Gain on sale of fixed asset	1
408:	Local Revenue	
40800	Taxes levied for Transit Agency	239,019
411:	State Formula and Contracts	
41101	State operating assistance	249,785
413:	Federal Contracts	
41301	Section 5311 (operating funds only)	109,082
414:	Other Revenue	
41400	Interest income	<u>7,072</u>
Total		<u>\$ 664,268</u>

**INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NONURBAN REGULAR SERVICE EXPENSE REPORT
YEAR ENDED SEPTEMBER 30, 2008**

Schedule 4E

	Operations	Maintenance	General Administration	Total
501: Labor				
50101 Operators' salaries and wages	\$ 161,310	\$ -	\$ -	\$ 161,310
50102 Other salaries and wages	4,815	36,353	49,064	90,232
50103 Dispatchers' salaries and wages	65,775	-	-	65,775
502: Fringe Benefits				
50200 Other fringe benefits	78,202	25,397	27,936	131,535
50201 Pensions	50,387	7,910	10,640	68,937
503: Services				
50302 Advertising fees	-	-	12,275	12,275
50305 Audit costs	-	-	7,750	7,750
50399 Other services	4,667	6,232	6,668	17,567
504: Materials and Supplies				
50401 Fuel and lubricants	60,529	-	-	60,529
50402 Tires and tubes	3,660	-	-	3,660
50499 Other materials and supplies	2,849	8,641	2,133	13,623
505: Utilities				
50500 Utilities	1,346	980	7,036	9,362
506: Insurance				
50603 Liability insurance	17,433	-	-	17,433
50699 Other insurance	1,555	-	18,425	19,980
509: Miscellaneous Expenses				
50902 Travel and meetings	-	232	2,346	2,578
50999 Other miscellaneous expenses	648	-	1,315	1,963
513: Depreciation				
51300 Depreciation	43,118	-	25,400	68,518
550: Ineligible Expenses				
55007 Ineligible depreciation	39,075	-	22,949	62,024
55009 Ineligible percent of assoc. dues	-	-	49	49
Total Expenses	-	-	-	\$ 753,027
Total Ineligible Expenses				\$ 62,073
Total Eligible Expenses				\$ 690,954

**INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NONURBAN REGULAR SERVICE NONFINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2008**

Schedule 4N

Code	Description	(Unaudited) Total
611	Vehicle miles	137,890

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

**INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
OPERATING ASSISTANCE CALCULATION
YEAR ENDED SEPTEMBER 30, 2008**

Schedule 5

	Nonurban
Total expenses	\$ 753,027
Less ineligible expenses:	
Depreciation	62,024
Association dues	49
Total ineligible expenses per R&E Manual	<u>62,073</u>
Total state eligible expenses	<u>\$ 690,954</u>
<hr/>	
Eligible expenses for state reimbursement	\$ 690,954
x reimbursement percentage (36.1508%)	<u>0.36151</u>
State operating assistance	<u>\$ 249,785</u>
<hr/>	
Total federal eligible expenses	
Less additional federal ineligible expenses per A-87:	
Depreciation	\$ 1,441
Audit costs	<u>7,750</u>
Total additional federal ineligible expenses per A-87	<u>\$ 9,191</u>
<hr/>	
Eligible expenses for federal reimbursement	\$ 681,763
x reimbursement percentage (16.0%)	<u>0.16000</u>
Federal Section 5311 operating assistance	<u>\$ 109,082</u>

INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
SCHEDULE OF COMMENTS AND RECOMMENDATIONS
YEAR ENDED SEPTEMBER 31, 2008

Schedule 6

Internal Control Over Financial Reporting

We identified the following items as significant deficiencies and all were considered to be material weaknesses:

1. **Auditor Adjustments** – While the Authority made some cash to accrual basis adjustments, we proposed, and management approved, additional entries based on our audit.
2. **Preparation of Financial Statements in Accordance with Generally Accepted Accounting Principles (GAAP)** – The Authority has limited experience in the preparation of year-end financial statements and relies on the auditors to draft the annual financial statements including related disclosures in accordance with generally accepted accounting principles.
3. **Segregation of Duties** – Due to the Authority's limited resources and personnel, they inherently have difficulty in establishing and maintaining an accounting system with strong internal controls including segregation of duties.

We recommend that the Authority discuss the costs and benefits of implementing controls to overcome the above mentioned material weaknesses.

**INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
SCHEDULE OF FUNDING PROGRESS – EMPLOYEE RETIREMENT SYSTEM
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN**

Actuarial Valuation Rate – December 31	2007	2006	2005
Actuarial value of assets	\$ 795,934	\$ 723,433	\$ 654,544
Actuarial accrued liability	749,114	688,828	621,464
Unfunded AAL	(46,820)	(34,605)	(33,080)
Funded ratio	106%	105%	105%
Covered payroll	227,169	219,527	209,253
UAAL as a percentage of covered payroll	0%	0%	0%

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

January 19, 2009

Board of Directors
Interurban Transit Authority
Douglas, Michigan

We have audited the financial statements of Interurban Transit Authority, County of Allegan, Michigan as of and for the year ended September 30, 2008, which collectively comprise Interurban Transit Authority's basic financial statements and have issued our report thereon dated January 19, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Interurban Transit Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Interurban Transit Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Interurban Transit Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Interurban Transit Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Interurban Transit Authority's financial statements that is more than inconsequential will not be prevented or detected by Interurban Transit Authority's internal control. We consider the deficiencies described in Schedule 6 of the supplementary information to be significant deficiencies in internal control over financial reporting.

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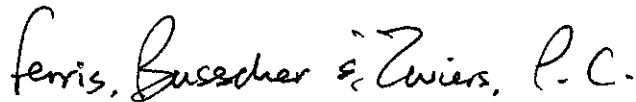
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Interurban Transit Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider all items to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Interurban Transit Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Schedule 6 of the supplementary information.

This report is intended solely for the information and use of the management, the board of directors and the Michigan Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.



FERRIS, BUSSCHER & ZWIERS, P.C.
Certified Public Accountants
Holland, Michigan

January 19, 2009

Board of Directors
Interurban Transit Authority
Douglas, Michigan

We have audited the financial statements of Interurban Transit Authority for the year ended September 30, 2008, and have issued our report thereon dated January 19, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated October 2, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Interurban Transit Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Interurban Transit Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Interurban Transit Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2008. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements was:

- **Estimated useful lives used in depreciating property and equipment.**
- **Estimated receivables for federal and state operating assistance based on the projected reimbursable percentage of eligible expenses.**

We evaluated the key factors and assumptions used to develop the estimates noted above in determining that they were reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Interurban Transit Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, some of the adjustments we proposed, whether recorded or unrecorded by the Authority, either individually or in the aggregate, indicate matters that could have a significant effect on the Authority's financial reporting process. Among these adjustments were the following:

- **The Authority generally records its activity on a cash basis. Generally Accepted Accounting Principles require that municipal entities record their activity on the accrual basis. As a result, we have proposed a number of adjustments, which the Authority has agreed to record.**

In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a

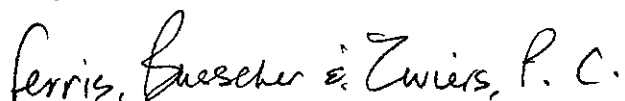
consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Interurban Transit Authority and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script that reads "Ferris, Busscher & Zwiars, P.C.".

FERRIS, BUSSCHER & ZWIERS, P.C.